

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
April 28, 2007 through April 25, 2008**

Romaine
and
Associates P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
April 28, 2007 through April 25, 2008**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GRAVES COUNTY SHERIFF'S SETTLEMENT - 2007 TAXES

**For The Period
April 28, 2007 through April 25, 2008**

Romaine & Associates, PLLC has completed the audit of the Sheriff's Settlement - 2007 Taxes for the Graves County Sheriff for the period April 28, 2007 through April 25, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$8,776,011 for the districts for 2007 taxes, retaining commissions of \$361,404 to operate the Sheriff's office. The Sheriff distributed taxes of \$8,388,042 to the districts for 2007 taxes. Taxes of \$6,696 are due to the districts from the Sheriff and refunds of \$1,047 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation of Duties
- The Sheriff Should Annually Prepare A Franchise Settlement In Accordance With KRS 134.310

Deposits:

The Sheriff's deposits were insured and collateralized by a security bond.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT.....	3
NOTES TO FINANCIAL STATEMENT	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	8
COMMENTS AND RECOMMENDATIONS	11

Krista Romaine, CPA, Member
Charlotte Clark, Member

Romaine *and* Associates PLLC

William Erwin, CPA
Van R. Prince, CPA

CERTIFIED PUBLIC ACCOUNTANTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the Graves County Sheriff's Settlement - 2007 Taxes for the period April 28, 2007 through April 25, 2008. This tax settlement is the responsibility of the Graves County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Graves County Sheriff's taxes charged, credited, and paid for the period April 28, 2007 through April 25, 2008, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Tony Smith, Graves County Judge/Executive

Honorable John Davis, Graves County Sheriff

Members of the Graves County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 2, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation of Duties
- The Sheriff Should Annually Prepare A Franchise Settlement In Accordance With KRS 134.310

Respectfully submitted,

Krista L. Romaine, CPA

Romaine & Associates, PLLC

April 2, 2009

GRAVES COUNTY
JOHN DAVIS, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period April 28, 2007 through April 25, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,012,953	\$ 1,203,670	\$ 3,175,601	\$ 1,383,057
Tangible Personal Property	109,232	141,817	308,253	338,222
Fire Protection	749	428,840		
Increases Through Exonerations		120		
Franchise Taxes:				
Billed	141,872	212,572	467,435	
Additional Billings	977	1,411	3,769	1,510
Limestone, Sand and Mineral Reserves	252	279	992	349
Bank Franchises	98,405			
Penalties	8,868	15,982	29,293	9,644
Adjusted to Sheriff's Receipt	95	231		-
Gross Chargeable to Sheriff	\$ 1,373,403	\$ 2,004,922	\$ 3,985,343	\$ 1,732,782
<u>Credits</u>				
Exonerations	\$ 8,210	\$ 12,293	\$ 18,153	\$ 18,076
Discounts	19,534	27,034	54,612	26,890
Delinquents:				
Real Estate	17,981	36,474	46,087	24,501
Tangible Personal Property	649	843	1,733	3,174
Clay Reserves	96	104	374	135
Additional Billing	87	215	329	122
Franchise Taxes:				
Delinquent	695	903	1,135	
Total Credits	\$ 47,252	\$ 77,866	\$ 122,423	\$ 72,898
Taxes Collected	\$ 1,326,151	\$ 1,927,056	\$ 3,862,920	\$ 1,659,884
Less: Commissions *	56,649	79,405	154,517	70,833
Taxes Due	\$ 1,269,502	\$ 1,847,651	\$ 3,708,403	\$ 1,589,051
Taxes Paid	1,266,969	1,837,522	3,698,664	1,584,887
Refunds (Current and Prior Year)	2,917	3,433	9,974	4,592
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ (384)	\$ 6,696	\$ (235)	\$ (428)

*,** See next page.

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN DAVIS, SHERIFF
 SHERIFF'S SETTLEMENT - 2007 TAXES
 For The Period April 28, 2007 through April 25, 2008
 (Continued)

* Commissions:

10% on	\$ 10,000
4.25% on	\$ 4,448,234
4% on	\$ 4,272,519
1% on	\$ 45,256

** Special Taxing Districts:

Library District	\$ (57)
Health District	(30)
JU Kevil	(23)
Watershed District 1	54
Watershed District 2	258
Symsonia Fire District	702
Volunteer Fire Departments	5,792

Due Districts or

(Refunds Due Sheriff)

\$ 6,696

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

April 25, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Graves County County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
April 25, 2008
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Graves County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 25, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 26, 2007 through April 25, 2008.

B. Clay Reserves

The tangible property tax assessments on clay reserves were levied as of January 1, 2007. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 21, 2007 through April 25, 2008.

C. Limestone, Sand and Gravel Reserves

The tangible property tax assessments on clay reserves were levied as of January 1, 2007. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 7, 2007 through April 25, 2008.

Note 4. Interest Income

The Graves County Sheriff earned \$8,178 as interest income on 2007 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Graves County Sheriff collected \$38,992 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Graves County Sheriff collected \$10,755 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Graves County Sheriff's Settlement - 2007 Taxes for the period April 28, 2007 through April 25, 2008, and have issued our report thereon dated April 2, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Graves County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation of Duties

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Graves County Sheriff's Settlement - 2007 Taxes for the period April 28, 2007 through April 25, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance on other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

The Graves County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

- The Sheriff Should Annually Prepare A Franchise Settlement In Accordance With KRS 134.310

This report is intended solely for the information and use of management, the Graves County Fiscal Court, and the Kentucky Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Krista L. Romaine, CPA

Romaine & Associates, PLLC

April 2, 2009

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN DAVIS, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 28, 2007 through April 25, 2008

STATE LAWS AND REGULATIONS:

The Sheriff Should Annually Prepare A Franchise Tax Settlement In Accordance With KRS 134.310

While reviewing the Fiscal Court Order Book, auditors noted that the franchise tax settlement – 2007 had not been approved. The property tax settlement – 2007 was approved by the fiscal Court. After speaking with the franchise tax bookkeeper, it was disclosed that a franchise tax settlement had not been prepared for the 2007 tax year. We recommend that the sheriff annually prepare a franchise tax settlement in accordance with KRS 134.310. The prepared franchise tax settlement should be also approved by the fiscal court.

Sheriff's Response: Working to correct this.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff or his designee should periodically compare a daily bank deposit to the daily collection report and daily cash sheet. Any differences should be reconciled. This could be documented by initialing the bank deposit slip, daily collection report, and daily cash sheet.
- The Sheriff or his designee should compare the tax settlement to monthly reports and bank records for accuracy. Any differences should be reconciled. This could be documented by initialing the tax settlement.
- The Sheriff or his designee should periodically compare tax payments to monthly reports. This could be documented by initialing the monthly report.
- The Sheriff or his designee should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: Working to correct this.